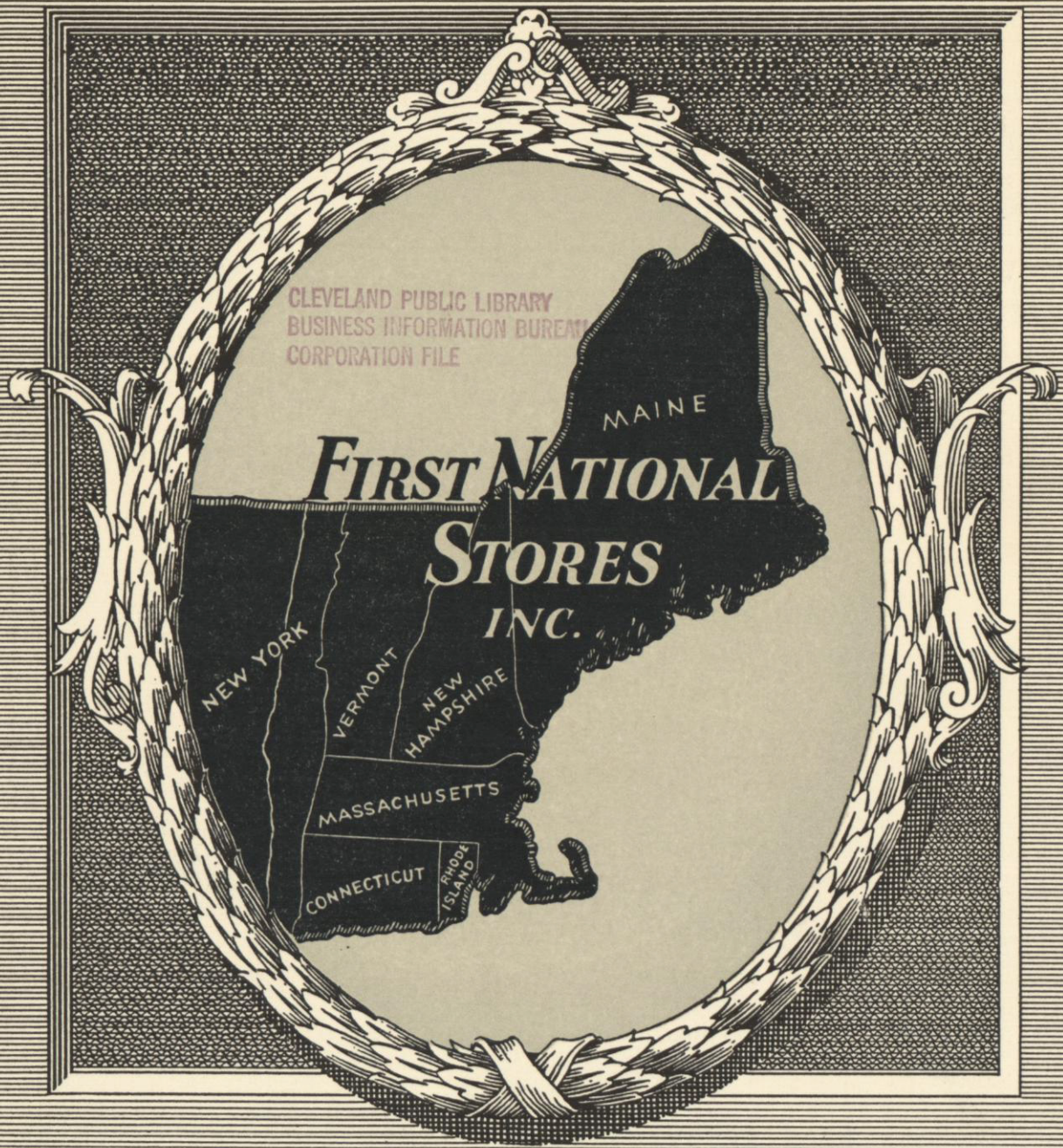


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*Annual Report*  
**FIRST NATIONAL STORES INC.**  
*year ending*

BOARDS  
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April 2<sup>nd</sup> 1938

# FIRST NATIONAL STORES INC.

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## *Officers*

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE . . . . .	<i>Vice-President</i>
BERNARD F. MCGOLDRICK . . . . .	<i>Vice-President</i>
MORRIS JOSELOFF . . . . .	<i>Vice-President</i>
JOHN L. MACNEIL . . . . .	<i>Vice-President</i>
RALPH F. BURKARD . . . . .	<i>Assistant Treasurer</i>
JOHN E. ELWELL . . . . .	<i>Clerk</i>



## *Executive Committee*

CHARLES F. ADAMS  
RALPH F. BURKARD  
MORRIS JOSELOFF  
BERNARD F. MCGOLDRICK  
ARTHUR O'KEEFFE



## *Directors*

CHARLES F. ADAMS	SAMUEL JOSELOFF
CHARLES H. BURGER	JOHN L. MACNEIL
RALPH F. BURKARD	BERNARD F. MCGOLDRICK
JAMES C. DUANE	JAMES J. O'HARE
BYRON M. FLEMMING	MICHAEL J. O'HARE
ROBERT F. IRWIN	ARTHUR O'KEEFFE
MORRIS JOSELOFF	NATHANIEL E. WHITTEMORE

Somerville, Massachusetts, June 10, 1938.

TO THE STOCKHOLDERS OF  
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending April 2, 1938, is presented herewith.

The figures given in this report are comparable with those of prior years as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent accountants, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this Report.

Summarizing the results of the operations for the year, there was an increase in our weekly average retail sales of 1.05%; earnings were lower, due to increased operating expenses and increased price competition; working capital was increased \$1,215,684 by the ordinary transactions during the year and decreased by \$2,760,416 paid for the redemption of 25,094.695 shares of our First Preferred Stock as of January 3, 1938; thus making a net decrease of \$1,544,732 compared with last year. Your Company is today in strong financial condition and has adequate working capital.

The following is a condensed summary of operations for the fiscal year ending April 2, 1938, compared with operations for the fiscal year ending March 27, 1937. There is also shown the financial position of this Company at April 2, 1938, compared with March 27, 1937.

	<i>For the Fiscal Year Ending</i>	
	<i>April 2, 1938*</i>	<i>March 27, 1937*</i>
Retail store sales . . . . .	\$124,294,617	\$120,682,961
Net profits after taxes, depreciation and all charges and available for dividends . . . . .	\$2,705,191	\$3,647,001
Earnings per share of common stock after preferred dividends paid during the year (on common shares outstanding at end of year)	\$3.14	\$4.24
	*53 weeks	*52 weeks
	<i>As of</i>	
	<i>April 2, 1938</i>	<i>March 27, 1937</i>
Net working capital (current assets less current liabilities) . . . . .	\$14,066,767	\$15,611,500
Fixed or property assets (less depreciation) . . . . .	\$8,987,253	\$9,677,296
Net worth . . . . .	\$23,746,089	\$26,369,140
Earned surplus . . . . .	\$16,617,966	\$14,799,718

On the following page there are graphic charts showing the results of our operations for the past twelve years.

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

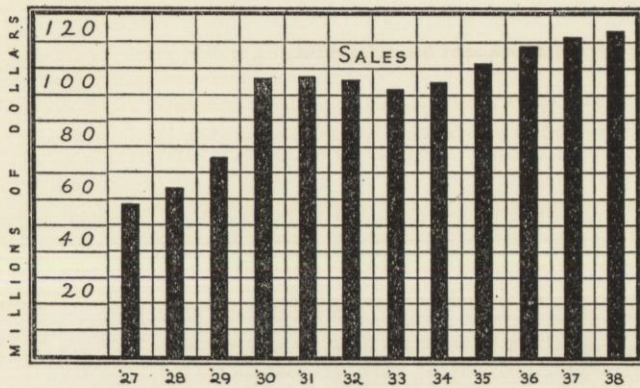
	<i>Fiscal Years</i>		
	<i>1938</i>	<i>1937</i>	<i>1936</i>
Depreciation charges . . . . .	\$1,005,648	\$1,079,777	\$1,119,989
Maintenance charges . . . . .	\$853,430	\$852,595	\$756,827

The above amounts were charged to earnings in their respective years to cover the depreciation, maintenance and regular repair of all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

DIVIDENDS PAID

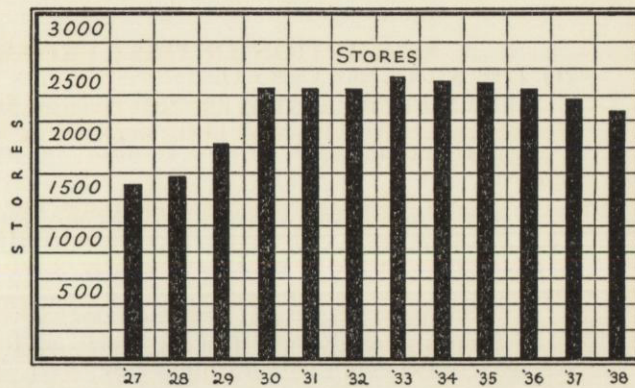
Four quarterly dividends of 62½ cents a share totalling \$2.50 were paid for the fiscal year on the common stock outstanding.

Regular quarterly dividends of \$1.75 per share totalling \$5.25 were paid on the first preferred stock outstanding on July 1, 1937, October 1, 1937 and the final dividend on January 3, 1938.



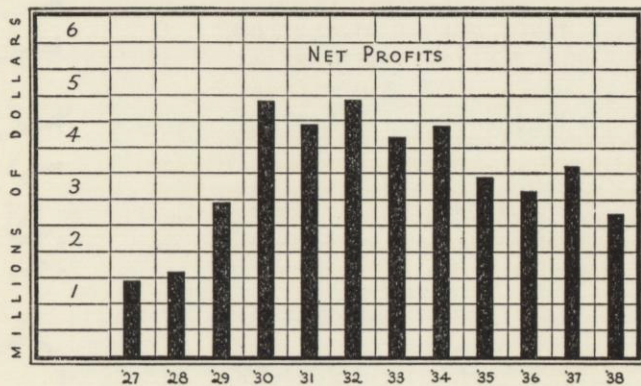
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1931	\$108,196,686	1935	\$111,323,463
1928	64,445,962	1932	107,634,383	1936	119,575,417
1929	75,884,639	1933	100,892,947	1937	120,682,961
1930	107,635,216	1934	105,812,781	1938	124,294,617



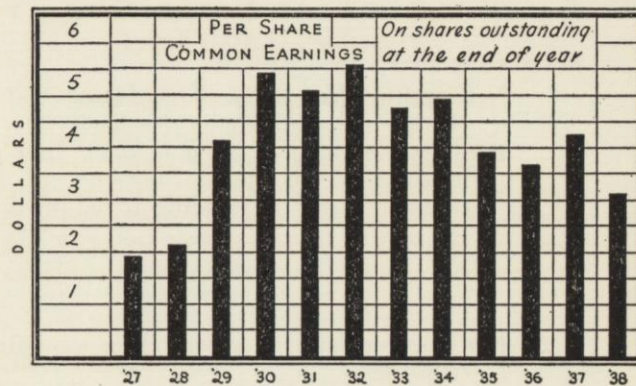
Stores—Fiscal Years

1927	1681	1931	2548	1935	2623
1928	1717	1932	2546	1936	2556
1929	2002	1933	2705	1937	2473
1930	2549	1934	2653	1938	2350



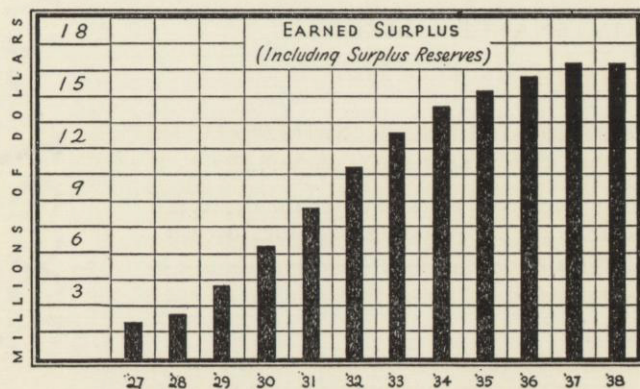
Net Profits—Fiscal Years

1927	\$1,492,193	1931	\$4,479,108	1935	\$3,433,504
1928	1,593,358	1932	4,825,611	1936	3,163,329
1929	2,904,884	1933	4,220,099	1937	3,647,001
1930	4,773,446	1934	4,394,830	1938	2,705,191



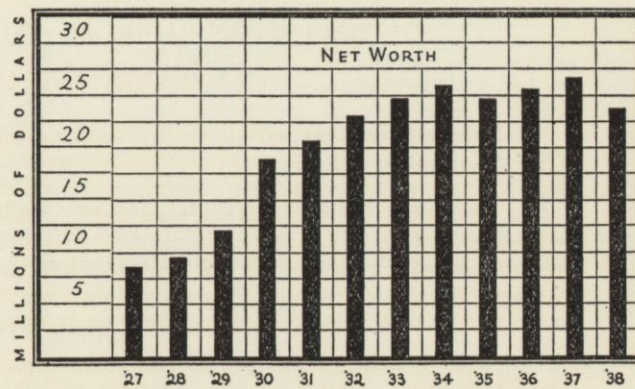
Per Share Common—Fiscal Years

1927	\$1.92	1931	\$5.03	1935	\$3.89
1928	2.09	1932	5.52	1936	3.65
1929	4.07	1933	4.78	1937	4.24
1930	5.39	1934	4.97	1938	3.14



Surplus (Including Surplus Reserves)  
Fiscal Years

1927	\$1,996,375	1931	\$8,371,910	1935	\$15,121,448
1928	2,238,303	1932	10,816,321	1936	16,062,827
1929	3,987,782	1933	12,666,672	1937	16,670,118
1930	6,369,726	1934	14,213,494	1938	16,688,036



Net Worth—Fiscal Years

1927	\$8,723,782	1931	\$20,349,333	1935	\$24,820,470
1928	8,965,710	1932	22,793,743	1936	25,761,849
1929	11,724,410	1933	24,644,094	1937	26,369,140
1930	18,347,148	1934	26,190,916	1938	23,746,089

## REDEMPTION OF FIRST PREFERRED STOCK—OUTSTANDING

On November 30, 1937, our First Preferred Stockholders were notified of the call for redemption on January 3, 1938, of all of the outstanding First Preferred Stock of this Corporation at \$110 a share, the call price.

25,094  $\frac{6,950}{10,000}$  shares were so called and the funds for redemption were deposited with the First National Bank of Boston. In addition, 1315 shares, previously acquired by purchase, were in the treasury of the Company at the time of call and will be surrendered for cancellation.

After these 26,409  $\frac{6,950}{10,000}$  shares are surrendered and cancelled by proper stockholders' vote, there will remain 806  $\frac{3,050}{10,000}$  shares of authorized but unissued First Preferred Stock which have been reserved for issuance in exchange for the small remaining outstanding balance (7007 shares \$10 par value) of our 8% Preferred Stock. This conversion privilege was withdrawn by directors vote on May 24, 1938.

## GROCERY STORES AND MARKETS

Your company had in operation on . . . . .	<i>April 2, 1938</i>	<i>March 27, 1937</i>
Grocery stores . . . . .	1,891	2,015
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores . . . . .	459	458
Total Grocery Stores and Markets . . . . .	2,350	2,473

You will note that on April 2, 1938 we had in operation 123 less stores than on March 27, 1937. The trend toward fewer and larger stores in the food distribution industry continues. Higher operating expenses, especially labor and taxes, together with increased price competition have caused an acceleration in this movement during the past year. In line with this trend your company has recently enlarged some of its stores and installed self-service grocery departments. It is too soon, however, to ascertain what results may be obtained from this development.

## PUBLIC RELATIONS

The management of your Company continues to recognize the vital importance of that aspect of the business which has to do with the good will, not only of customers, but of the community. This phase of modern business operations has come to be known as "public relations." In the conduct of the First National enterprise, there is a complete management recognition of the vital importance of public relations, expressed not only in specific programs for increasing a true understanding of the nature of the business but in a policy which puts the major emphasis on being good citizens and on conducting the business in such a way as to make it a constructive influence economically, as affecting the consuming public, the supplier, the employee and the community.

## TAXES AND LEGISLATION

For the fiscal year ending April 2, 1938, earnings were charged with direct taxes of \$1,463,828. This amounts to 35% of our profits before taxes for the year, or \$1.79 for each common share, or \$606 for each store we operate. Indirect, so called "invisible" taxes are increasingly a tremendous factor in the cost of foods to the consumer. Such taxes are not included in the above figures but it is estimated these amount to 18 to 25% of every dollar spent for food. Our direct taxes continue to increase each year and are 83% higher than in 1930. This direct tax levy does not contain at the present time any discriminatory or so-called chain store taxes, for presently there are no such taxes in the New England States where we operate.

Your investment, as one of over 9,000 owners or stockholders of this company is devoted to the distribution of life's greatest necessity—food. Your company's chief objective is the carrying on of this vital and important work, efficiently, economically and with a deep sense of its great responsibility to the producers from whom we buy, the consumers whom we serve, our great number of employees and to the communities in which we operate—in fact all of the elements we contact in the daily operation of our business.

On February 14, 1938, a bill was introduced into the House of Representatives of the United States called the Patman bill. This bill is known as HR 9464 and has been referred to the Committee on Ways and Means. This bill provides (after two years at lower rates) for a graduated annual tax on chain store units up to \$1,000 for each store in excess of 500 and then the tax is multiplied by the number of States in which a company operates. In our case our annual cost would be approximately \$15,000,000 (\$6,382 a store) or over five times our present annual earnings.

This bill has no sound economic basis and would vitally affect the consumer interest which would be seriously and adversely affected by any such radical legislation. If this bill is enacted into law—a substantial part of the retail distribution system of this country will be destroyed or disorganized; 1,500,000 people employed in the chain store industry would be forced to find new employment; food costs, according to competent authorities, would increase approximately 10%; real estate values would be seriously affected in most cities and towns throughout the country; and the efficient marketing agency of direct distribution, which the farmer now enjoys would be eliminated with consequent lower net return to the producers of this nation.

We feel that the time has come when the consuming public that receives the great benefits of chain store distribution should be more fully informed of the facts concerning this form of distribution, and we urge our stockholders to discuss this chain store issue whenever there is an opportunity. The public, by its patronage, appreciates the benefits of chain store distribution. Our job is to make them articulate in defense of our form of distribution in order that legislation such as this Patman Bill, which is economically unsound, will also become politically unpopular as well. We hope that our stockholders will give this their careful consideration and action. We urge our stockholders to communicate their views to their Representatives and Senators in Congress.

#### STOCKHOLDERS

We again report an increase in the number of our common stockholders since our last fiscal year. With substantially the same number of shares outstanding, our common shareholders have increased from 4,607 in 1932 to 9,228 in 1938—an increase of 4,621 or 100%. The ownership of our shares is widely distributed, not only in practically every city or town in New England where our stores are located, but throughout the rest of the United States and some foreign countries, as well.

The following table shows the number of our common shareholders at various intervals since 1926.

1938	1937	1936	<i>As of March</i>		1929	1926
			1935	1932		
9,228	8,095	7,316	6,576	4,607	1,975	1,304

#### TREASURY STOCK—OPTIONS

The balance sheet shows that your Company had 10,057 shares of common stock on hand in its treasury at April 2, 1938. Of that amount, which was acquired by purchase, 3,820 shares are set aside under option to certain employees at a price near the market at the time such options were executed.

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We take this opportunity to record our thanks and appreciation to our employees for their loyal support and cooperation during the past year.

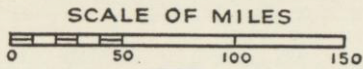
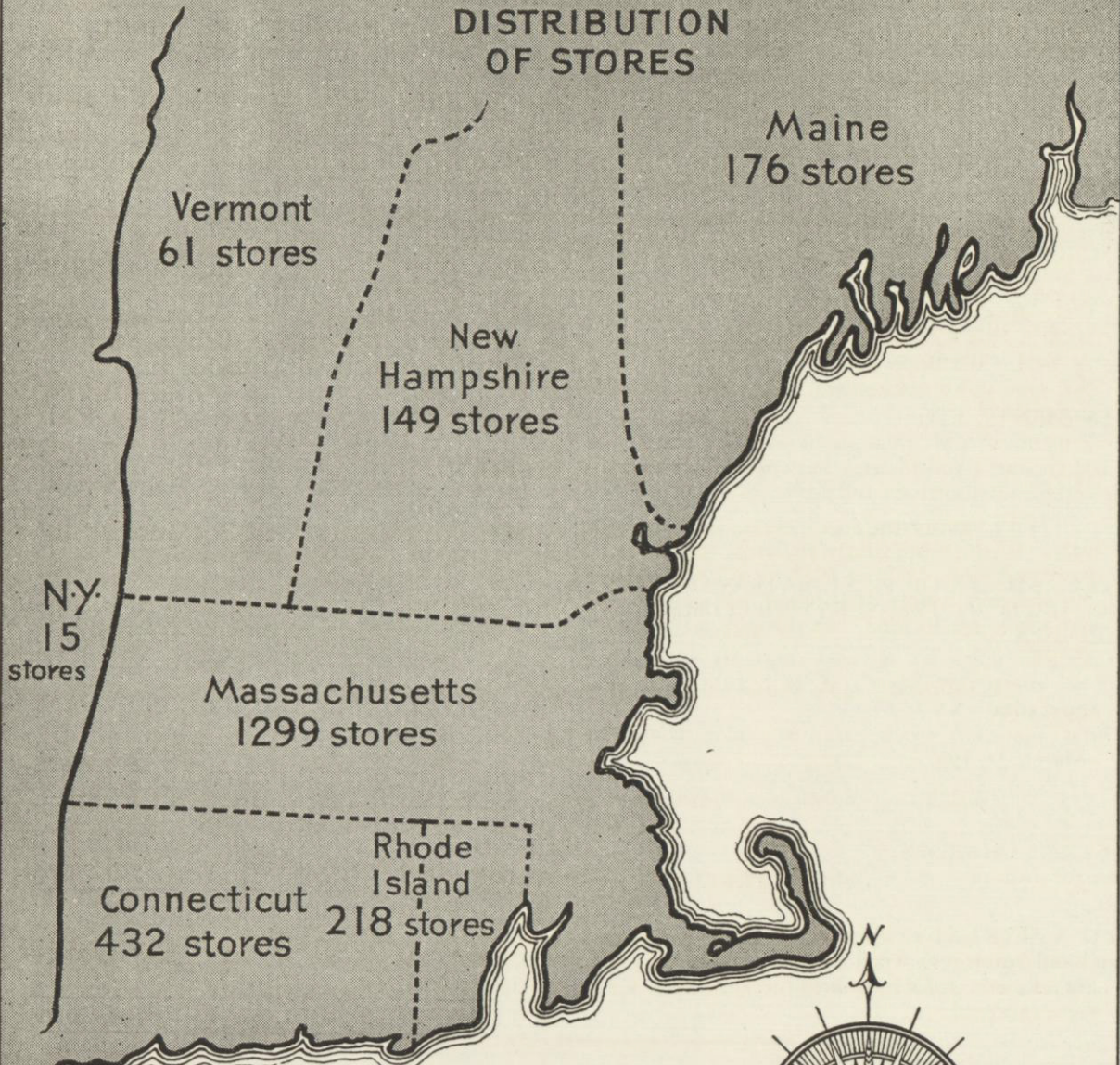
#### ANNUAL MEETING—PROXIES

A notice of the Annual Meeting of stockholders accompanies this report. Stockholders are requested to sign the management's authorized proxy attached to their notice and *mail promptly* in the envelope provided. Your immediate co-operation in this important matter will be greatly appreciated.

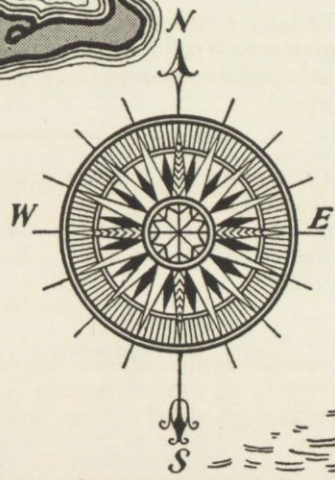
ARTHUR O'KEEFFE,  
*President.*

# FIRST NATIONAL STORES INC.

## GEOGRAPHICAL DISTRIBUTION OF STORES



**Total Number of Stores**  
as of April 2, 1938  
**2350**



72°

70°

FIRST NATIONAL STORES INC.

Comparative Balance Sheet—April 2, 1938 and March 27, 1937

ASSETS			
	April 2, 1938	March 27, 1937	Increase *Decrease
<b>CURRENT ASSETS:</b>			
Cash in banks and on hand (after deducting dividends paid April 1)	\$4,114,359.81	\$4,214,264.50	*\$99,904.69
U. S. Government and municipal securities (at market quotations April 2, 1938—approximately \$4,085,000)	4,091,277.23	5,025,527.85	*934,250.62
Accounts receivable, less reserve	390,899.52	366,927.39	23,972.13
Accounts receivable—officers and employees	4,844.77	11,904.68	*7,059.91
Inventories of merchandise, materials and supplies on hand and in transit, at cost or market whichever lower (certified as to quantities and condition by responsible officials)	<u>10,298,508.43</u>	<u>11,178,573.31</u>	<u>*880,064.88</u>
Total current assets	<u>\$18,899,889.76</u>	<u>\$20,797,197.73</u>	<u>*\$1,897,307.97</u>
<b>INVESTMENTS, ETC.:</b>			
Investments in and advances to wholly-owned milk and creamery subsidiaries—at cost, less reserve	\$292,603.12	\$322,603.12	*\$30,000.00
Miscellaneous securities and advances	<u>57,212.18</u>	<u>86,556.99</u>	<u>*29,344.81</u>
Total investments, etc.	<u>\$349,815.30</u>	<u>\$409,160.11</u>	<u>*\$59,344.81</u>
<b>CAPITAL STOCKS OF FIRST NATIONAL STORES INC. HELD IN TREASURY FOR CORPORATE PURPOSES:</b>			
Common stock at reduced amounts carried on books—10,057 shares at April 2, 1938 (at market quotation—\$267,767.63)	\$267,767.63	\$533,255.88	*\$265,488.25
First preferred stock, at cost (1296 shares at March 27, 1937)	<u>.....</u>	<u>137,334.31</u>	<u>*137,334.31</u>
	<u>\$267,767.63</u>	<u>\$670,590.19</u>	<u>*\$402,822.56</u>
<b>DEFERRED CHARGES:</b>			
Prepaid insurance and expenses	<u>\$648,014.42</u>	<u>\$557,537.77</u>	<u>\$90,476.65</u>
<b>FIXED ASSETS (AT COST):</b>			
Land and buildings owned	\$6,269,071.23	\$6,173,600.10	\$95,471.13
Less—Reserve for depreciation	<u>1,418,066.18</u>	<u>1,262,168.26</u>	<u>155,897.92</u>
	<u>\$ 4,851,005.05</u>	<u>\$4,911,431.84</u>	<u>*\$60,426.79</u>
Fixtures and equipment, etc. (after deducting fully-depreciated assets)—			
Store fixtures, leased property improvements, machinery and equipment	\$8,490,516.52	\$9,206,247.32	*\$715,730.80
Automobiles	<u>556,150.90</u>	<u>533,714.97</u>	<u>22,435.93</u>
	<u>\$9,046,667.42</u>	<u>\$9,739,962.29</u>	<u>*\$693,294.87</u>
Less—Reserve for depreciation	<u>4,910,419.37</u>	<u>4,974,098.04</u>	<u>*63,678.67</u>
	<u>\$4,136,248.05</u>	<u>\$4,765,864.25</u>	<u>*\$629,616.20</u>
Total fixed assets	<u>\$8,987,253.10</u>	<u>\$9,677,296.09</u>	<u>*\$690,042.99</u>
GOODWILL	\$1.00	\$1.00	.....
	<u>\$29,152,741.21</u>	<u>\$32,111,782.89</u>	<u>*\$2,959,041.68</u>



FIRST NATIONAL STORES INC.

Comparative Balance Sheet—April 2, 1938 and March 27, 1937

LIABILITIES			
	April 2, 1938	March 27, 1937	Increase *Decrease
<b>CURRENT LIABILITIES:</b>			
Acceptances payable under letters of credit . . . . .	\$116,541.35	\$129,464.95	*\$12,923.60
Accounts payable . . . . .	2,736,894.24	2,870,008.90	*133,114.66
Accrued taxes and other expenses . . . . .	933,424.16	909,773.78	23,650.38
Employees' investment certificates . . . . .	385,430.00	406,370.00	*20,940.00
Provision for federal taxes . . . . .	660,832.58	870,080.36	*209,247.78
Total current liabilities . . . . .	\$4,833,122.33	\$5,185,697.99	*\$352,575.66
<b>RESERVES:</b>			
For contingencies . . . . .	\$334,600.58	\$334,600.58	.....
For sinking fund preferred stocks . . . . .	70,070.00	1,870,400.00	*\$1,800,330.00
Miscellaneous . . . . .	238,929.12	222,344.15	16,584.97
Total reserves . . . . .	\$643,599.70	\$2,427,344.73	*\$1,783,745.03
<b>CAPITAL STOCK:</b>			
7% first preferred—par value			
\$100 per share:			
Authorized and issued or held for exchange for			
8% preferred—27,216 shares . . . . .			
	\$2,721,600.00	\$2,721,600.00	.....
Less—Redeemed and held for retirement—			
26,409.6950 shares . . . . .			
	2,640,969.50	.....	\$2,640,969.50
	**\$80,630.50	\$2,721,600.00	*\$2,640,969.50
<b>Common:</b>			
Authorized—1,000,000 shares without par value			
Issued—827,634 shares . . . . .			
	6,977,422.07	6,977,422.07	.....
Total capital stock . . . . .	\$7,058,052.57	\$9,699,022.07	*\$2,640,969.50
<b>EARNED SURPLUS . . . . .</b>	\$16,617,966.61	\$14,799,718.10	\$1,818,248.51
	\$29,152,741.21	\$32,111,782.89	*\$2,959,041.68

\*\*Represented by 7,007 outstanding shares of non-callable 8% preferred stock plus conversion premium thereon (the conversion privilege was withdrawn by a vote of the directors on May 24, 1938). There are authorized 72,007 shares of 8% preferred stock having a par value of \$10 each.

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have made an examination of the comparative balance sheet of First National Stores Inc. as at April 2, 1938 and March 27, 1937 and of the statements of earnings and surplus for the fiscal year ending April 2, 1938. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year but we did not make a detailed audit of all transactions.

In our opinion, based upon such examination, the accompanying comparative balance sheet and related statements of earnings and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its position at April 2, 1938 and March 27, 1937 and the results of its operations for the fiscal year ending April 2, 1938.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts.  
May 27, 1938.

## FIRST NATIONAL STORES INC.

### STATEMENT OF EARNINGS—FISCAL YEAR (53 WEEKS) ENDING APRIL 2, 1938

Sales . . . . .		\$124,294,617.86
<i>Less:</i>		
Cost of sales, expenses, etc. (exclusive of depreciation) . . . . .		120,155,416.66
		\$4,139,201.20
<i>Deduct:</i>		
Depreciation on fixed assets . . . . .		1,005,648.76
		\$3,133,552.44
<i>Add:</i>		
Interest and dividends received . . . . .		177,577.30
		\$3,311,129.74
<i>Deduct:</i>		
Interest paid . . . . .	\$24,559.38	
Loss on disposition of fixed assets (net) . . . . .	98,110.10	122,669.48
		\$3,188,460.26
<i>Deduct:</i>		
Provision for federal income taxes . . . . .	\$468,269.05	
Provision for surtax on undistributed profits . . . . .	15,000.00	483,269.05
		\$2,705,191.21
Net profit for the fiscal year (53 weeks) ending April 2, 1938 . . . . .		\$2,705,191.21

### STATEMENT OF SURPLUS FOR THE FISCAL YEAR ENDING APRIL 2, 1938

Earned surplus at March 27, 1937 . . . . .		\$14,799,718.10
Net profit for the fiscal year ending April 2, 1938 . . . . .	\$2,705,191.21	
<i>Less:</i>		
Dividends paid:		
Preferred stock . . . . .	\$136,113.83	
Common stock . . . . .	2,042,975.01	2,179,088.84
		526,102.37
7% first preferred stock sinking fund restored to surplus . . . . .		1,800,330.00
		\$17,126,150.47
<i>Deduct:</i>		
Premium on 7% first preferred stock called for redemption (including shares previously held in treasury) . . . . .	\$258,695.61	
Write-down of common stock held in treasury to market quotation as at April 2, 1938 . . . . .	249,488.25	508,183.86
		\$16,617,966.61
Earned surplus at April 2, 1938 . . . . .		\$16,617,966.61

FIRST NATIONAL BANK

STATEMENT OF EARNINGS FOR THE YEAR ENDING DECEMBER 31, 1912

Interest on loans	100,000
Interest on deposits	50,000
Interest on bonds	20,000
Interest on real estate	10,000
Interest on other securities	5,000
Dividends on investments	3,000
Other income	2,000
Total income	190,000
Expenses	
Salaries and wages	80,000
Interest on deposits	50,000
Interest on bonds	20,000
Interest on real estate	10,000
Interest on other securities	5,000
Dividends on investments	3,000
Other expenses	2,000
Total expenses	170,000
Net income	20,000

STATEMENT OF CAPITAL FOR THE YEAR ENDING DECEMBER 31, 1912

Capital stock	1,000,000
Surplus	200,000
Reserve fund	100,000
Other assets	50,000
Total assets	1,350,000
Liabilities	
Deposits	1,000,000
Other liabilities	350,000
Total liabilities	1,350,000

